

Message Text

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DRAFTED BY TREASURY:JMCCAFFERTY, EB/IFD/OMA:TAFORBORD
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TO AMEMBASSY MEXICO

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TAGS: EFIN

SUBJECT: FOREIGN CONVENTIONS: ADMINISTRATION'S TAX
PROPOSAL

REF: (A) MEXICO 2333; (B) STATE 16807

1. DEPARTMENT APPRECIATES EMBASSY'S CONCERN OVER WHAT MIGHT BE PERCEIVED AS AN INCONSISTENCY BETWEEN VICE PRESIDENT'S MEXICO CITY REMARKS ON FOREIGN CONVENTION TAX REGULATIONS AND PRESIDENT'S TAX REFORM PROPOSALS ON FOREIGN CONVENTIONS OUTLINED REF (B). EMBASSY SHOULD KEEP IN MIND THAT THE PRESIDENT'S TAX REFORM PROPOSAL WILL REPRESENT A LIBERALIZATION WITH RESPECT TO THOSE ORGANIZATIONS WHICH MAY REASONABLY HOLD CONVENTIONS AT MEXICAN SITES. THESE ORGANIZATIONS WILL NO LONGER BE SUBJECT TO THE TWO-CONVENTIONS-PER-YEAR LIMITATION AND WILL BENEFIT FROM THE LIMITED OFFICIAL USE

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INCREASED PER DIEM RULES. OTHER ORGANIZATIONS FOR WHICH MEXICAN CONVENTION SITES ARE NOT REASONABLE WILL BE SUBJECT TO GREATER RESTRICTIONS. IT IS TOO EARLY TO ESTIMATE THE NET EFFECT OF THESE CHANGES ON THE MEXICAN TOURIST INDUSTRY, ALTHOUGH IT IS POSSIBLE THE EFFECT MAY BE NEGATIVE.

2. THE PRESIDENT'S TAX REFORM PROPOSALS DO NOT CONTAIN A

"NORTH AMERICAN EXEMPTION." THE FOREIGN CONVENTION

DEDUCTION LIMITATIONS ARE INTENDED TO PREVENT TAXPAYERS FROM DEDUCTING THE COST OF ESSENTIALLY PERSONAL VACATIONS DISGUISED AS A BUSINESS EXPENSE. ALLOWANCE OF A NORTH AMERICAN EXEMPTION WOULD ALLOW A CONTINUATION OF MUCH OF THE ABUSE AT WHICH THE PROVISION IS DIRECTED. IT WOULD ALSO DISCRIMINATE ARBITRARILY AMONG FOREIGN COUNTRIES.

3. THE U.S. MIGHT BE WILLING TO CONSIDER MAKING CONCESSIONS TO MEXICO ON THE FOREIGN CONVENTIONS ISSUE IN THE CONTEXT OF A BILATERAL TAX TREATY. THE U.S. IS PREPARED TO NEGOTIATE A TREATY PROVISION WHICH WOULD TREAT MEXICAN SITES ON THE SAME BASIS AS DOMESTIC SITES, REMOVING ALL RESTRICTIONS. PRESUMABLY, THE TAX LOSS TO THE U.S. RESULTING FROM THESE CONCESSIONS WOULD BE COUNTER-BALANCED BY MEXICAN CONCESSIONS IN OTHER AREAS. WE WOULD APPRECIATE EMBASSY VIEWS ON POSSIBLE MEXICAN RECEPTIVITY TO SUCH A PROPOSAL. THE U.S. IS PRESENTLY CONSIDERING INCLUDING SUCH PROVISIONS IN TAX TREATIES WITH OTHER COUNTRIES. VANCE

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